Kentucky Retirement Systems (KRS)
Funding Policy

Effective Date July 1, 2013

The purpose of the funding policy is to state the overall funding goals for KRS, the benchmarks that will be used to measure progress in achieving those goals, and the methods and assumptions that will be employed to develop the benchmarks. Unless otherwise noted below, this policy applies equally to the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS) and the State Police Retirement System (SPRS).

I. Funding Goals

The objective in requiring employer and member contributions to the Systems is to accumulate sufficient assets during a member's employment to fully finance the benefits the member receives throughout retirement. In meeting this objective, the Systems will strive to meet the following funding goals:

- To reach a 100 percent minimum funded ratio by amortizing the System Unfunded Actuarial Accrued Liability over a 30 year closed period beginning July 1, 2013;
- To maintain adequate asset levels to finance the benefits promised to members;
- To develop a pattern of stable or declining contribution rates when expressed as a percentage of member payroll as measured by valuations prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board, with a minimum employer contribution equal to the lesser of the normal cost determined under the Entry Age Normal funding method or the current active member contribution rate;
- To provide intergenerational equity for taxpayers with respect to System costs; and
- To fund benefit improvements through increases in contribution rates in accordance with statute.

II. Benchmarks

To track progress in achieving the previously outlined funding goals, the following benchmarks will be measured annually as of the actuarial valuation date (with due recognition that a single year's results may not be indicative of long-term trends):

- **Funded ratio** – The targeted funded ratio of the System is 100%, defined as the actuarial value of System assets divided by the Systems' actuarial accrued liability, before adjustments for changes in benefits, actuarial methods, and/or actuarial assumptions.
- **Contribution rate history** – Employer and member contribution rates as determined by actuarial valuations should be sufficient from year to year when expressed as a percent of active member payroll to adequately fund the promised benefits of the System.

- **Unfunded Actuarial Accrued Liability (UAAL) amortization period** – The amortization period for the Systems' UAAL will be set to 30 years as of July 1, 2013. The period will be closed and will decline one year each year until a funded ratio of 100 percent is reached. The amortization of the UAAL will be developed using the level percent of payroll methodology. Any increase in UAAL due to significant benefit improvements will be financed over a separate 30 year period commencing with the first valuation following the passage of the statutory change producing such benefit improvement.

III. Methods and Assumptions

The actuarial funding method used to develop the benchmarks will be Entry Age Normal. The method used to develop the actuarial value of assets will recognize the underlying market value of the assets by spreading each year's unanticipated investment income (gains and losses) over a five-year smoothing period (1/5th per year), as adopted by the Board.

The employer contribution rates for KERS and SPRS will be set based on the valuation results produced as of the July 1st preceding the beginning of each biennium. The employer contribution rates for CERS will reflect the phase-in of insurance rates through fiscal year 2018 as called for in statute.

The actuarial assumptions used will be those last adopted by the Board based upon the advice and recommendation of the Systems' actuary. The actuary shall conduct an investigation into the Systems' experience at least every five years, and utilize the results of the investigation to form the basis for those recommendations.

The Board will have an audit of the Systems' actuarial valuation results conducted by an independent actuary at least every five years. The purpose of such a review is to provide a critique of the reasonableness of the actuarial methods and assumptions in use and the resulting actuarially computed liabilities and contribution rates.

IV. Funding Policy Review

The funding policy components will be reviewed and amended as necessary following each experience investigation conducted by the Board.